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# The Chinese governance system: Its strengths and weaknesses in a comparative development perspective



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## ABSTRACT

This is an overview paper focusing on the organizational aspects of the Chinese governance system and their relation to development. Compared to other developing countries like India, it has special positive features of career incentives promoting growth at the local level, the ability to take long-term decisions relatively quickly, and a unique blend of political centralization and decentralization of economic power and responsibility, that is conducive to central guidance and local business development. On the other hand, with a lack of sufficient downward (as opposed to upward) accountability and absence of institutionalized systems of scrutiny and challenge from below, mistakes or abuse of power are more difficult to check and correct quickly, political loyalty may often get a premium over performance at the upper levels, and there are insufficient checks on collusion between business and officials. The over-all organizational system is prone to over-reaction in times of crisis and thus only weakly resilient compared to systems where information flows from below are less controlled or choked.

## I. Introduction

The governance system is an essential part of the so-called China development model, and yet somewhat less frequently discussed than the other aspects of this model, and when it is discussed in the general literature on comparative governance, the emphasis outside China has been more on the simplistic authoritarianism-democracy distinction. As briefly discussed in Bardhan (2013), authoritarianism is neither necessary nor sufficient for some of the distinctive features of Chinese governance, both positive and negative –and their roots actually go long back in history—just as some of the recently observed dysfunctionality of governance in USA or India is not inherent in their democratic process.

In this overview paper I shall focus particularly on the following three aspects of Chinese governance, from the point of view of economic development, and occasionally draw comparison with governance features in India, the second largest developing country:

- I. Internal Organization of Government
- II. Abuse of Governance and Corruption.
- III. Decentralized Structures and Practices.

### I. Internal organization of government

- Political meritocracy

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It is often pointed out that unlike in most authoritarian countries China has a political meritocracy. China's dramatic economic success has now convinced even some western scholars—see for example the book by Bell (2016) – not to speak of the members of the Chinese elite, that in terms of performance Chinese political meritocracy can achieve as well as (or even better than) a multi-party democracy: an issue of special urgency at a time when there is widespread shakiness of confidence in liberal democracy.

Not merely are officials in China selected on the basis of an examination system that goes way back in imperial history, their career promotion depends on how well the local economy performs. This works better than in, for example, democratic India's top administrative system, where promotion is based more on seniority than on performance, even though recruitment is on the basis of civil service examinations.

An immediate question that arises is: in the political system who defines what is 'meritorious' and what is not?

It is possible that what may look like meritorious performance to the Chinese Party elite and its Central Organization Department, *Zhongzubu*, may not be considered so by many others in the general population, particularly in a large country with inevitable diversities and conflicts of objectives; not to speak of the outlying regions where performance by centrally appointed provincial leaders considered meritorious by the Party may not be judged so by many in the ethnic groups like Tibetans or Uighurs.

In general, how do we know what people consider as meritorious without institutions of downward accountability?

One of the distinctive features of democracy is that the criteria of meritorious performance arise out of open public discussion. Thus how much of a political leadership's performance is meritorious may include considerations of pluralism and inclusiveness in the decision process itself. Democratic performance emphasizes the *process* as much as *outcome*. In this process citizens in a democracy are not treated as children: what is good for them is not decided by a patrimonial leadership, as is the case much too often in China (or Singapore). This is valid even when the latter leadership is very wise and benevolent.

Also, in a democracy the performance criteria are much more multi-faceted reflecting the pluralist agenda—it is uncommon to reward an official mainly on the basis of the growth rate of the local economy—and thus the incentives get diluted and are less effective. The same thing is happening in China now when other criteria (like environmental goals) enter performance evaluation.

#### • Performance vs. Loyalty

The general understanding is that career concerns of top officials act as a key determinant of economic growth at the local level, particularly the county and prefecture levels. And job rotation of officials at that level provides useful on-the-job training at diverse localities.<sup>1</sup>

Of course such performance incentives sometimes also generate plenty of side income or rent-earning opportunities (for example, from sales of local government land and mining rights), which while helping local revenue also used to enable private illicit income for officials.

What about the large numbers of the rank and file of public employees, who mostly remain in one place and for whom career incentives through promotion are not that relevant? They used to help themselves to all kinds of supplemental compensations, perks and benefits making up for low salaries. In other authoritarian countries such systems of supplemental compensation sometimes degenerate into local loot and plunder—the proverbial extreme case is that of Zaire under Mobutu, where soldiers and bureaucrats were not paid but left to fend for themselves (this tradition largely continues in the Democratic Republic of Congo even today). It is likely that in China this system for the low-level officials was constrained from being excessive by the career concerns of the top local leaders.

But a less well-known factor about Chinese promotion system is that as one climbs up the political ladder, to the provincial levels and beyond, performance factor seems to diminish in importance in career prospects, and the factor of political connections assumes significance—this is suggested, for example, by Landry, Lu, and Duan (2017) from an analysis of a comprehensive dataset of political appointments at the provincial, prefectural and county levels. They find that the link between economic performance—in terms of GDP and revenue growth—and promotion is the strongest for county officials, significant for municipal officials, and insignificant for provincial officials.

Similarly, from a comprehensive biographical database of all provincial leaders from 1978 until 2012 and an analysis of their promotion patterns, Su, He, and Tao (2016) find no evidence supporting the claim that competence has played much of a role in the central personnel decisions. Instead links with the Politburo members or family connection with senior Party leaders are more important.

There are also quid pro quo transactions. Using data for over a million land transactions during 2004–16 Chen and Kung (2019) have shown

- o that provincial Party secretaries in selling local government land gave firms linked with Politburo members nearly 60% price discounts compared to others (an even more substantial discount to the firms of members of the top Standing Committee of the Politburo)
- o in return such discount-givers were estimated to be 23% more likely to be promoted to positions of national leadership (in general the larger the discount the higher was the chance of promotion).

<sup>1</sup> For an analysis of pre-mayor level transfers as opportunities for job training in Chinese bureaucracy on the basis of data for 2000 officials, see Li, Wan, Xi and Yao (2019)

The recent crackdowns have somewhat reduced the chances for such promotions.

In any case such a general system of promotion has at least one important implication compared to other countries:

Since performance incentives operate at least at the lower levels, higher-level leaders, even when they are selected on the basis of their loyalty to the current leadership at the top, are likely to have some measure of field-tested competence and experience.<sup>2</sup>

This balance of performance and loyalty over an official's career path leads to a major advantage that China enjoys in the quality of its bureaucracy, compared to many other countries (including, say US or India), not to speak of many authoritarian countries where loyalty rules over minimum competence.

Of course, this also means that competent officials who are not sufficiently well-connected to the top current leadership in China may reach a 'glass ceiling'. Some of them may then turn to alternative ways of earning rewards (including some corrupt ways). These corrupt ways have now been substantially curbed in the recent anti-corruption campaigns. There is even some evidence that high-performers connected to previous top leaderships were particularly likely to be investigated, although the campaigns have gone much beyond merely penalizing rival power groups.

In India meritocratically recruited bureaucrats are manipulatively transferred. The threat of transfer to unattractive departments or locations acts to ensure loyalty to their political masters. The lure of post-retirement plum jobs for ex-bureaucrats assigned by political leaders also work to keep the former pliant. This often means that junior officers under-invest in acquiring expertise, and one hears about corrupt deals between Indian politicians and bureaucrats in the process of 'transfers and postings'. There are also stories about vertical corrupt transactions in buying and selling of positions in the Chinese bureaucracy, some of which have been revealed in the recent anti-corruption campaigns—from the data one finds vertical correlation between corruption indictments at higher and lower levels across provinces. In India such corruption may be somewhat more subject to public scrutiny by media, social movements, and investigative agencies, which are usually more open and intense than in China.

In UK such manipulative transfers are less common. The system in USA, on the other hand, is characterized by high turnover of senior civil servants (long before firing by twitter under the current President).

The political-bureaucratic distinction particularly at higher levels is, of course, blurred in China, as the Party is supreme. But even in western democracies the political control over senior appointments and promotions in public service has increased over time. Even in the UK, the insulation of career civil service has declined somewhat, and this insulation has always been much weaker in USA than in UK (or Denmark or New Zealand).

The issue of political control pertains not just to the civil service, but also to the various regulatory bodies that any complex economy requires—like the entities that regulate public utilities (e.g. electricity, civil aviation, telecommunication, etc.) and apex bodies regulating monetary or environmental policy or financial markets. Decisions in such regulatory bodies need special expertise and some insulation from the day-to-day political pressures and some independence from political interference. Such independence is often completely lacking in the Chinese system—commitment to independence even when earnestly announced by the political leadership is not ultimately credible.

But even in democracies the balance between autonomous experts and the need for periodic public review of their decisions to ensure accountability has been difficult to achieve. In India there are very few genuinely independent regulatory bodies (even apart from the problem of their capture by generalist Indian Administrative Service officers). Even the semi-independence of the Reserve Bank of India has been under some stress.

In both China and India the police and bureaucracy are often deliberately incapacitated and made to serve short-term political goals of leaders.

- *Organizational capacity to foster technological innovations*

In terms of the governance capacity to foster technological innovations, China has advanced much more than most developing countries, particularly in terms of R&D as percentage of GDP (though public R&D support often neglects small and medium enterprises), restructuring and upgrading of elite universities, and measures of progress in science and technology.

China, of course, has been very successful in the 'catching-up' process of development, of learning and imitating off-the-shelf technology. In some day-to-day application and enhancement of existing technology (mobile payment, e-commerce, transport, etc.) China is now more advanced than the US. The major technological race between China and the West is currently in areas like artificial intelligence, chip-making, and bio-technology.

But in any future advances beyond the existing technological frontier China has a major advantage and a major disadvantage. The advantage follows from the large size of the population and of the domestic market. Innovations (like those involving artificial intelligence and machine learning) that thrive on economies of scale, network externalities and big data feedback loops will find hospitable ground in China.

The disadvantage for China follows from the lack of an open system that could encourage free spirit, critical thinking, challenging of incumbent organizations and methods, and diversity rather than conformity—these are necessary ingredients of many types of creative innovations. The current system of state promotion and guidance of globally successful large private technological

<sup>2</sup> On the basis of city-level panel data Jiang (2018) even shows that city leaders with informal ties to incumbent provincial leaders display better performance in terms of growth.

Also, political loyalty plays an important role in bureaucratic promotion in democracies as well. But in the latter in view of possible electoral consequences, politicians at all levels are a bit more sensitive to the well-being of diverse interest groups.

enterprises (Alibaba, Tencent, etc.) is worth examining from this point of view. On the one hand, the state wants them to be 'national champions', on the other hand, it does not want them to be autonomously powerful enough to be outside the ambit of its control, supervision, and surveillance.

Will the Chinese state allow the full forces of 'creative destruction' that Schumpeterians associate with innovations? (In 2017 the total no. of annual insolvency cases was smaller in China than even Romania, not to speak of the advanced industrial countries). Will an autonomously successful firm be considered too 'independent' for the comfort of the Party? Are today's successful incumbent firms (private or public) 'too big to fail', or in the case of clusters, 'too many to fail'? Will the Party consider a major commercial failure or a prolonged stock market slump as a sign of lack of confidence in the all-powerful Party? What will be the role of venture-capital funds? (There are inherent problems of state-run or -controlled venture-capital funds).

It also depends on the nature of future innovations. Some innovations are of the 'disruptive' kind that challenge incumbent firms (which the US private innovators in collaboration with venture capitalists are good at and a politically-connected large entrenched organization usually is not). Other innovations are of the steady 'incremental' kind that adds up to significant gains (the Japanese call it *kaizen*), in which some large organizations in Germany, Japan and South Korea have excelled. It is likely that the Chinese system is more conducive to this incremental kind of innovations.

#### • *Upward vs. Downward Accountability*

Even though at the top level between the provincial and the central leadership in China there is some degree of reciprocal accountability, as provincial officials constitute about half of the Central Committee of the Party that elects Politburo members, it is probably correct to say that the Chinese system is by and large one of upward accountability.

Downward accountability provides more political legitimacy to democratic governments, but such accountability can sometimes degenerate into pandering to short-run interests and pressure groups, particularly at election time. Short-run cyclical official behavior before the Party Congress is not unknown in China, but in general it is much easier for leaders to take long-run decisions under the Chinese governance system.

But a severe flaw of the upwardly accountable Chinese system is that mistakes in such top-level decisions or outright abuses of power (in collaboration with crony business interests) take longer to detect and to correct (as the flow of information upward is tortuous or choked and the tendency to cover up is often too strong). The recent abolition of term limits for the President and the decline of the collective leadership that Deng Xiaoping had put in place will make this problem more acute.

In multi-party democracies the open adversarial relation between the government and opposition parties and the free media usually uncovers the mistakes and abuses much sooner, and corrections are prompted by public protests, agitations, and ultimately electoral sanctions. This also means that the information problem that even well-meaning bureaucrats in the Chinese system face is less severe in multi-party democracies—in China, unlike in many authoritarian countries, the information problem is partly relieved through decentralization (more on this in section III).

#### • *Systemic Stability*

One concern about the Chinese governance system is about the mechanism through which a system that can go off-equilibrium on account of various kinds of political or economic shocks is restored to equilibrium. In the face of a crisis the Chinese state often tends to over-react, suppress information and act heavy-handedly, thereby sometimes magnifying the dimensions of the crisis.<sup>3</sup> This also generates low tolerance for short-run economic volatility and the rush to reckless fiscal policies that exacerbate the staggering problems of capital misallocation that China faces. The institutional mechanisms for structural reform have now become particularly weaker, as the resolution of internal governance conflicts is now more dependent on personalized channels.

There also remains the larger institutional issue that China has faced throughout history: how to institutionally guarantee the rule of a 'good emperor', as opposed to a 'bad emperor', or that of a good emperor not turning bad. The recent disruption in the conventions of collective leadership and the acceleration of the cult of personality in leadership can only worsen this problem.

As the economy becomes more complex and social relations become more convoluted and intense, the absence of transparent and accountable processes and the attempts by a 'control-freak' leadership to force lockstep conformity and discipline will generate acute tension, conflicts, and informational inefficiency.

In India, despite all the recent ominous signs of a democracy sliding into a form of a majoritarian overreach, it is probably still correct to say that the system structurally remains somewhat more resilient than in China.

## II. Abuse of governance and corruption

Over the last quarter century, there has been a tight, often collusive, relationship between business and politicians in China. This is evident from (a) frequent interchanging of positions between executives in public sector companies and the Party's Central Committee; (b) some of China's richest private businessmen are members of the National People's Congress (China's Parliament) and the People's Political Consultative Conference, an important advisory body; (c) the average net worth of the richest 70 members of the

<sup>3</sup> A recent example is provided by the initial attempts at cover-up and policy blunders in coping with the COVID-19 epidemic (as was the case with the SARS epidemic at the beginning of the century).

National People's Congress in China is several times that for the richest 70 members of the US Congress or the Indian Lok Sabha (lower house of Parliament)—there are even accounts of large “donations” made before such businessmen are selected for these bodies in China.

All this is apart from the influence of the top political families (“princelings”) who have long been in lucrative business. The ownership of many private companies is so murky and intertwined with the public-sector companies that it is often difficult to keep track of the boundaries of the business-politics nexus. There have also been cases of successful private companies “persuaded” to invest billions of dollars' worth in backing state-owned companies.

The business-politician nexus is, of course, quite common in India. Of the current ruling party Members of Parliament in India about half are businessmen, the corresponding percentage for MP's of all parties taken together is about a quarter. (There is also evidence that people from other occupations, once elected, often turn to business, particularly of the kind that thrive on political connections and networks). The businessmen bring their own money for election campaigns and other political expenditure, and company donations to party funds for election are large, and now, under the anonymous election bond system, openly non-transparent.

Both countries have similar patterns of rampant influence-peddling, policy manipulation, politically connected firms getting favors in loans from public banks and access to prize real estate, monopoly mining rights, etc. China being more involved in construction and infrastructure activities, which are usually “rent-thick”, there is more scope for corruption, as seems to be suggested by both anecdotal and empirical evidence. [Fisman and Wang \(2014\)](#) detected corruption in state asset sales by comparing the prices of publicly traded assets to those of non-publicly traded assets.

Even to take an example from a different area, like public health: drug prices are usually much higher in China than in India, even though the single-payer system in Chinese health care should have given the government more bargaining advantage vis-a-vis the drug companies. People attribute this to the more entrenched kickback system between drug companies and doctors, hospitals, and officials in China.

It is likely that the business-politician collusion in governance is somewhat more subject to public scrutiny in India than China, and the courts are more independent in India (though clogged and corrupt, particularly at the lower levels). The scrutiny of collusive behavior by Indian media is now under some shadow with the concentration of its business ownership.

Also, it should be mentioned that the relation with the all-powerful Party is somewhat precarious for the Chinese business tycoons, as political disloyalty or even suspected ‘independence’ is punished more harshly than in India. Indian politicians may be a bit more dependent on businessmen particularly in view of election funding.

### III. Decentralized structures and practices

Chinese political centralization (in the imperial authority in the past and in that of the Party in recent decades) has been historically tempered by a unique blending of political centralization with economic and administrative decentralization—another distinctive feature of the Chinese governance system. [Xu \(2011\)](#) has described the system as ‘regionally decentralized authoritarianism’, in contrast with most authoritarian systems that are highly centralized.

India in some sense is the obverse—combining political decentralization (regional power groupings have been quite strong in recent decades) with economic centralization (the vertical fiscal imbalance, for example, is quite severe).

China has much better modes of management of infrastructure financing and construction at the local level. For example, urban infrastructure there is constructed, operated, and maintained by separate companies set up by the city government, whereas in India the municipal government itself does it through its own departments. The latter are financially strapped, as they do not have much taxation power and are perpetually dependent on the state government for funds. In general, even after the centralizing reforms since 1994, the fiscal system is much more decentralized in China, where sub-provincial levels of government tend to spend more than half of total government budgetary expenditure, compared to about 3% in India (this is not including the large off-budget revenue-raising and expenditure of local governments in China). The much worse performance of sub-provincial local bodies in India in the last-mile delivery of public services and facilities is partly attributable to this (even though Chinese local governments have also much larger responsibility for infrastructure-building and public services). In India the emphasis has been more on fiscal transfers to local governments than on local tax autonomy.<sup>4</sup>

In both China and India decentralization tends to accentuate regional inequality, though in India the constitutional body of the Finance Commission tends to partially compensate for this by allocating redistributive transfers to poorer regions.

In comparison with other developing countries the Chinese local government is much more involved in local business development, not just in public services delivery. A few years back when the private automaker, Zhejiang Geely Holding Group, bought up the Swedish car company Volvo in a widely publicized move, much of the money was actually provided by the local municipal government—something unthinkable, for example, in India. Jurisdictional competition for mobile resources and business and regional competition in growth rates influencing career promotion of officials have usually played a much more important role in Chinese local development.

But in recent years the pace of experimentation and trial-and-error pilot projects in local areas, which characterized the early reform period, has slowed down. The current regime's more centralized and personal loyalty-based leadership has made

<sup>4</sup> Even in China for evidence about how in recent years increased fiscal transfers have dampened local tax enforcement, see [Jia, Ding, and Liu \(2019\)](#).



experimentation even more difficult. This is on top of the policy paralysis of a bureaucracy made nervous by the massive anti-corruption campaigns.

A growing literature in decentralization all over the world has pointed to the problem of capture of local governments by the elite (including officials and intermediaries) and the frequent diversion of benefits and resources to non-target groups.<sup>5</sup>

In India there is plenty of evidence of landed interests undermining decentralized welfare programs for the poor, apart from state political administration and legislators hampering devolution of power to the village or municipal authorities. China's more egalitarian land use rights distribution after de-collectivization may have prevented the rise of a landed oligarchy that has often captured local governments in parts of rural India.

However, in recent decades Chinese decentralization has not been able to avoid the problem of serious local elite capture. Chinese local business in collusion with local officials has been at the root of problems of arbitrary land acquisition, toxic pollution, and violation of safety standards in food and in work for factories and mines. Such collusion is much more rampant in China than, say, in India, primarily because China has fewer checks from below on abuse of power.

On safety standards, for example, Chinese coalmine death rates are reported to be 15 times higher than that in India. On the basis of provincial-level panel data on key state coal mines in China from 1995 to 2005, Jia and Nie (2015) provide evidence that decentralization makes collusion between official regulators and firms more likely (in the Chinese media such collusion is called *guan-mei goujie*) and is correlated with increases in coal-mine fatality rates. This is also consistent with the general finding of Fisman and Wang (2015) that politically connected firms in China have higher rates of workplace fatalities, based on firm-level data collected from different industries between 2008 and 2011. (While Jia and Nie focus on the characteristics of regulators, Fisman and Wang focus on those of firms.) There is also suggestive evidence in the Jia and Nie paper that media exposure can act as a deterrent against collusion. Martinez-Bravo, Qian, and Yao (2014) provide evidence, on the basis of village panel data, that local officials are better controlled by local elections than by central monitoring.

There are also fewer checks on debt-fueled over-investment and excess capacity in local government-controlled or politically connected firms (currently a source of major macro-economic problems in China). China's central leadership is now trying to rein in the debt problem of local governments and their dependence on the shadow banking system.

Thus in this paper we have looked at some positive and negative features of the organizational system of Chinese governance and put them in some comparative perspective. Such overviews need to be complemented by more in-depth studies at the micro-level of governance, in comparison with micro institutions in other developing countries.

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<sup>5</sup> For a discussion of this literature, see Bardhan (2002).